

A Global View on Technology

To invest successfully in technology one has to have a global perspective. The technology sector is perhaps the most global in terms of both supply and demand. That's why Ian Warmerdam, the manager of the Henderson Global Technology Fund, believes that the analysis of technology stocks cannot be done from a purely domestic perspective if you want to have the entire picture. The Fund stresses rigorous analysis, valuation and behavioral finance techniques in its bottom-up selection process.

Q: How would you describe your investment philosophy?

A: We start with the premise that the prospects for technology companies are often misunderstood and as a result companies may be priced inefficiently. We try to exploit this inefficiency by a thorough fundamental analysis undertaken by our team of experienced specialized Fund managers. Importantly, all our analysis is done from a global perspective.

Our global perspective provides us with various information advantages and investment opportunities. We may find similar companies trading at very different valuations purely because of their geographic location. We are able to find investment opportunities which may be off the radar screen of many of the U.S. based funds. But since the U.S. is the core place for technology companies, it is typically going to represent a large percentage of the Fund's portfolio.

We believe that technology stocks should be looked at globally because technology is very much a global sector. There are enormous food chain linkages between companies. For example, a U.S. company like Hewlett-Packard usually uses components

from all over the world and sells its products globally. Therefore, if you analyze the company from a purely domestic perspective, that's not really the full picture. You need to look at the global environment to analyze the full picture.

Q: How do you define "technology"? What do you include and exclude in your universe?

A: We include the traditional sectors such as computer hardware and software, network communications equipment, IT services and semiconductors. But we also include the Internet sector in its broadest sense. To a lesser extent we also look at areas like medical technology, solar energy, media and telecoms.

Q: How do you translate that philosophy into an investment strategy and process? What type of companies do you look for?

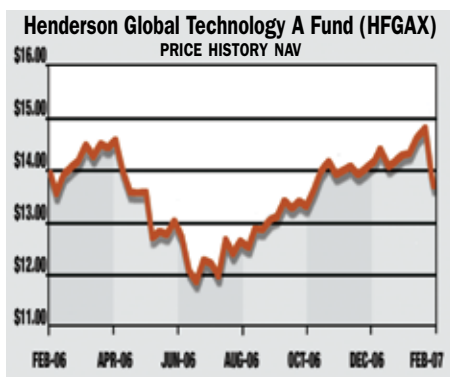
A: We have particular focus on valuation, which is another differentiating factor because our peer group tends to be more growth oriented. Also, within our process, we try to build understanding of the cyclical factors (i.e. product cycles, economic cycles, inventory cycle, and seasonality) that affect the technology sector.



IAN WARMERDAM has over 10 years industry experience, having begun his career as a US Equity Investment Analyst.

Since joining Henderson in 2001, Ian has been responsible for the management of Henderson's 4* Morningstar-rated mutual fund, the Henderson Global Technology Fund which launched in August 2001. He is also responsible for a number of Technology 'sleeves' to larger, global equity portfolios, and is Director of Technology Investment at Henderson.

Prior to joining Henderson, Ian worked at both Scottish Widows and Scottish Life. He has an MSc in investment analysis from the University of Stirling, and is an Associate Member of the Society of Investment Professionals.



Once we gain that information advantage, we look for investment opportunities where growth should be higher or more durable than the market expects or where value is particularly underappreciated.

Q: Could you highlight your research process?

A: Our process is predominantly bottom-up stock analysis. The country and the sector weightings are primarily driven by individual stock selection but we do pay attention to the aggregate levels for risk mitigation purposes. We also have a thematic overlay. For instance, one of the current themes is internet advertising.

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For the fundamental analysis, we rely on three experienced Fund managers. Each of us specializes in global sub-sectors and that specialization allows us to follow the sub-sectors in detail. To be included in the portfolio each investment has to show significant upside potential.

We use behavioral finance techniques including earning revisions analysis and contrarian analysis. These techniques are also the basis for a quantitative screen, which eliminates certain stocks from our list of candidates unless there is strong fundamental conviction at the heart of the sub-sector specialists.

Q: How do you generate and analyze ideas? Would you illustrate your process with a couple of examples?

A: We meet with many companies at conferences, in their offices, in our offices, or via telephone conversations. That is one primary source of ideas. Our screening process and our industry research can also be a source of ideas.

For example, we met with the French company Parrot during their first road show when they were coming to the market. The company is a manufacturer of hands-free sets for mobile phones that connect via Bluetooth. They produce high-end devices, demand for which is being driven by tightening road-safety regulations around the world. They have strong intellectual property and very importantly their products are able to work with the phones of any manufacturer. That provides a crucial advantage because their competitors are the device manufacturers whose products normally connect only with their own phones.

Although we consider Parrot a very attractive niche player, we performed

considerable bottom-up analysis to identify the best entry points for this small-cap stock. For a company with only one product, the entry point is the key. We decided that the intellectual property provides significant leadership and there was a very good chance for share price growth. Going forward, the fundamental analysis was very favorable given the demand. It was also very attractive from a valuation standpoint. The stock was depressed only because of its small-cap technology nature and trades at a forward looking price-to-earnings ratio of 14 despite its triple-digit revenue growth rate.

Another example is Apple, which has been an enormous success story for us because we were early investor in the company stock. The stock price has increased nearly tenfold since our original purchase. At the time when we bought it, the common perception was that Apple was a manufacturer of personal computers (PCs) whose share was gradually decreasing because it couldn't compete with the huge research and development (R&D) budgets of Microsoft and Intel. At that point we thought Apple was a compelling investment because cash on the balance sheet represented a large proportion of the value of the company and we were confident that their history of innovation and strong brand name would allow them to continue to develop successful products in the future.

Of course, we couldn't anticipate the iPod and its enormous success. We purchased Apple largely on the basis of valuation but when the iPod was released and started to grow fast, we fairly quickly realized that it was going to be huge because of the fragmented nature of the MP3-player market, the strong Apple brand name, and the compelling product relative to its competition. In addition, the iPod

refreshed the brand image of the company as it became a cool product for the younger generation. This refreshed brand image would help other parts of the business, and this has recently begun to happen with the growing success of the Mac platform. That's why we have continued to hold Apple throughout this period.

Q: What are the most important elements of the portfolio construction process?

A: We run a concentrated portfolio of 55 stocks. The Fund is not constructed in relation to any index but we would use the index for risk-mitigation purposes. We are agnostic to market capitalization, index weight, and geography; the stock selection is based purely on the appeal of the stocks. Each of the three Fund managers specializes in sub-sectors and rates the stocks on a scale from one to five. Only the stocks with ratings one or two are considered candidates for purchase.


Of course, we combine the stock selection process with certain risk constraints. We tend to take position either at 1.5% or 3% weightings, depending on the conviction level. We would likely not have any position in the fund over 5%.

Q: What would you do when a successful investment like Apple continues to grow to represent more than 5%? Overall, what is your sell discipline?

A: In cases such as Apple, we may take profits along the way and might trim the position to keep it below 5%. Another reason to sell a stock might be if it is rated "three" by the sub-sector specialist. The rating may change for a variety of reasons – price appreciation, change in the fundamental circumstances of that company, or change in the competitive environment.

Q: What is your perception of risk? How do you manage risk at the portfolio and the stock level?

A: We use the index to monitor our geographic and sector risks. If we deviate significantly from the benchmark, we will take a reality check to ensure that we are content with the risks and the rewards of those positions. Additionally, we monitor our food chain exposure because of the considerable inter-linkage between the IT companies from different sub-sectors. We closely analyze those links to monitor our aggregate exposure to the particular end market.

Although we are agnostic to market capitalization, we monitor the liquidity of the stocks in which we invest. In some rare occasions, this may lead us to adjust the Fund's position size accordingly. Another way to mitigate risk is that each of us dynamically rates the stocks. We also have a formal monthly stock selection meeting with an opportunity for detailed peer review between the three of us. In addition, we have a monthly meeting with the CIO of international equities which provides significant oversight to the risk of the portfolio. 

Henderson Global Technology A

Symbol	HFGAX
Website	www.hendersonglobalinvestors.com
Address	Henderson Global Investors (North America), Inc., 737 North Michigan Avenue, Suite 1700, Chicago, IL 60611
Tel. No.	866-443-6337
Inception	08/31/2001

PORTFOLIO

Total Net Assets*	\$61.5
Avg Mkt Cap (\$ Weighted)*	\$33,500
Average Price/Earnings Ratio	24.5x
Average Price/Book Ratio	4.17x
Turnover Ratio	80%

INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	\$500
Min Subsequent Investment	N/A
Min Initial IRA Investment	\$500

RISK (AGAINST NASDAQ COMPOSITE P IX INDEX)

Alpha	1.39
Beta	1.21
R-Squared	94.42
Ann. Std Deviation	26.09
Sharpe Ratio	0.22

RETURNS VS. NASDAQ COMPOSITE P IX INDEX

	HFGAX	Index
1 Year (Cum.)	5.00%	5.91%
3 Year (Ann.)	8.56%	5.98%
5 Year (Ann.)	9.85%	6.89%

RETURNS VS. S&P 500 DAILY REINV IX INDEX

	HFGAX	Index
1 Year (Cum.)	5.00%	11.97%
3 Year (Ann.)	8.56%	9.10%
5 Year (Ann.)	9.85%	6.82%

FEES AND EXPENSES

Max Sales Charge - Front	5.75%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee**	2.00%
Total Expense Ratio	1.95%

PORTFOLIO MANAGER

Ian Warmerdam	Aug-2001
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*millions

**within 1 month of purchase

Data through: 02/28/07

Source: Company Documents; Lipper

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